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14 JAN 1971

MEMORANDUM FOR: Special Support Assistant to the Deputy
Director for Support

25X1A

ATTN: [REDACTED]

SUBJECT: Tax Exemption--CIARDS Disability Annuities

1. In line with your interest this date on subject, there is attached an excerpt from the House Committee hearing on the proposed CIA Retirement Act in which there appears the request from the Chairman of the Ways and Means Committee to defer to that Committee on the provision in the bill exempting disability annuities from Federal income taxes. Also attached from the same source is the language of the provision in question together with a short explanation.

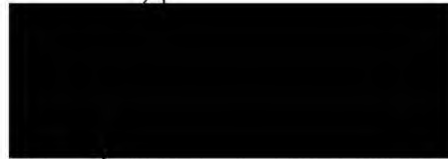
2. As a matter of fact, following this hearing the Ways and Means Committee did not act at all on the proposition even though encouragement was given up until the close of the 88th Congress in late 1964.

3. In the succeeding 89th Congress, after the CIA Retirement Act had become law, the proposition was introduced as a separate bill (H. R. 8815) and referred to the Ways and Means Committee. Again, while prospects for favorable consideration looked bright at the outset, action became ensnared in an overall policy review of the general subject by the Joint Committee on Internal Revenue Taxation. As a consequence, our report to the Ways and Means Committee on the legislation was never cleared by the Bureau of the Budget.

4. The justification for the proposition, in addition to the existing Foreign Service precedent, has been that conditions of service and exposure of CIARDS personnel are such that their disability, like Armed Forces members and Foreign Service personnel, are sufficiently duty connected to warrant exclusion of the resulting annuity from taxation. Bearing

negatively on the issue is the fact that tax-exempt FECA benefits are already available in performance of duty cases and the general reluctance to extend the existing Foreign Service exemption to any new civilian group in the face of numerous bills introduced every year to provide similar treatment for Civil Service disability annuities.

5. Based on our most recent readings with the Ways and Means Committee, prospects for this type of legislation appear dim, although this doesn't mean we shouldn't give it a try. Moreover, this legislation would probably never be favorably acted upon by the Ways and Means Committee without the concurrence and support of the Office of Management and Budget, Treasury, and possibly the Civil Service Commission.



25X1A

Assistant Legislative Counsel

[No. 26]

SUBCOMMITTEE NO. 1 CONSIDERATION OF H.R. 7216, TO AMEND THE
CENTRAL INTELLIGENCE AGENCY ACT OF 1949, AS AMENDED,
AND FOR OTHER PURPOSES

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE No. 1,
Washington, D.C., Tuesday, July 23, 1963.

The subcommittee met at 10 a.m., Hon. L. Mendel Rivers, chairman
of the subcommittee, presiding.

Mr. RIVERS. Let the committee come to order

Mr. McCone has another very important engagement, and he asked
that after his statement he be excused. And, of course, we want to
accommodate him. And he is late now. So I will ask the committee
to come to order, and let us begin the hearings on this very important
piece of legislation.

Members of the committee, we are meeting this morning to begin
hearings on H.R. 7216, a bill to amend the Central Intelligence Agency
Act of 1949. Mr. McCone and General Carter are here to testify in
support of this bill.

Gentlemen, we are very pleased to have you here, Mr. McCone, with
the members of your staff, and I am sure that this will be an enlighten-
ing session for all of us.

Now, this looks like a very complicated bill. Actually, almost all
of the provisions currently exist as law applying to executive agencies.
The first part of the bill contains technical amendments to bring the
CIA Act up to date on such things as travel and medical benefits. It
also contains a proposed new section authorizing the Agency to receive
gifts from individuals and business organizations.

However, by and large, the main purpose of this bill is to authorize
CIA to establish a special retirement system for a limited number of
their employees and we will go into that part first. The system is
identical, or almost identical, to the retirement system of the Foreign
Service and I am advised that it does not provide anything new.

I will not ask Mr. McCone to discuss all of this at this time. Mr.
McCone will present a general statement on this bill and answer a few
general questions. Then, because much of the specific discussion
will involve classified information, of course we will have to go into
executive session.

Mr. McCone, I would like to ask you and your people as they testify
on the retirement system to point out anything that is different from
the Foreign Service system. This committee has jurisdiction over
CIA but it is not expert in the Foreign Service retirement system
which, as it stands today, is the result of some 40 years' of experience.

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you are going to pay him a million dollars, that may have taken years to secure? Well, I think the choice, sir, would be up to General CARTER. There are many circumstances for each person.

the individual circumstances—
 Whether or not he would accept—
 Mr. GAVIN. It is some incentive, sir. It is some incentive.

and not a great deal. Well, if you required a professional, you had been com-

pleted, and you had no reason to believe that he would receive another special service annuity to come in to render a special service to the nation.

for you, or your department? We would not normally take that type of information on as a condition of employment. We would not normally take him on as a condition of employment.

~~soil oil as a~~ contract agent, and were hired by U-2 pilot
~~treat employee or a~~ contract agent, and were hired by U-2 pilot

who were on contract. And then we have no retirement or annuity responsibility.

ities at all. This would be strictly a special contract:

Mr. RIVERS. Now, Mr. Blandford, you

Mr. BLANDFORD. Yes, sir.

bill on the floor.

the appropriate action. I want you all to hear this.

Mr. BLANDFORD, the Chairman of the Committee on Ways and Means:

HON. CARL VINSON,
Chairman, Committee on Armed Services,

MY DEAR MR. CHAMBERLAIN:—I have the honor to acknowledge the receipt of your letter of the 12th inst., which you introduced at the meeting of the Central Intelligence Agency, and in which you stated that the Government of the United States had passed a law, H.R. 1216, which would prevent the Central Intelligence Agency from receiving any information from the Government of the United States which might be of use to the Government of the United States.

Act of 1949, contains provisions on Ways and Means within the Committee of the Conference on the provisions within

jurisdiction of our committee, and submit to the committee concerned whatever evidence is taken on the particular point.

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 of the body

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in line with this policy the committee to review the tax provisions of Ways and Means, this committee will again convene to these Affairs), wherein we handled the tax provisions of the committee to review the tax provisions of Ways and Means, this committee will again convene to these

provisions, it has been written in a bill concerning those matters which we write the language on them. We make recommendations as the report language on them.

[illegible]

We always make every effort to consider the part of the schedule of the other party to us expeditiously, so as not to delay in any way the schedule of the other party.

Sincerely yours,
WILLIAM D. MILLER, Chairman

Banking Without Frontiers

Mr. Chairman, this morning the Committee hearings this week, and indicated that our

Thursday, and report the bill to the rank committee.

The CIA representative said that the CIA would support the bill, but he did not know whether it would pass. He said that the CIA representative had been told by the CIA director that the CIA would support the bill, but he did not know whether it would pass.

take this bill, H.R. 1269, and try to work out a separate title and a separate Committee, and try to work out a separate title and a separate Committee, and try to work out a separate title and a separate Committee.

then could be—we could strike out the internal

to the Internal Revenue Code, and report language, which would eliminate the distinction between two types of

With their request to the best of my knowledge, one on disability retirement

General CARTER. Yes, sir; we will answer.

Mr. RIVERS. Why don't you

General CARTER. Yes, sir.

General CARTER. I am sure it can be brought to their attention. I am sure it can be brought to their attention. 9

And they ought to have something to bring back to us today.

Mr. RIVERS. Let us do that.

(General Carter, keep your hands off me. I don't think

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TITLE III—INTERNAL REVENUE CODE AMENDMENT

Paragraph (4) of section 104(a) of the Internal Revenue Code of 1954, as amended (26 U.S.C. 104(a) (4)) (relating to the exclusion from gross income of compensation for injuries and sickness) is hereby amended to read as follows:

"(4) amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country or in the Coast and Geodetic Survey or the Public Health Service, or as a disability annuity payable under the provisions of section 831 of the Foreign Service Act of 1946, as amended (22 U.S.C. 1081, 60 Stat. 1021), or as a disability annuity payable under the provisions of section 231 of the Central Intelligence Agency Retirement Act of 1963."

Explanation.—This section amends paragraph 4 of section 104(a) of the Internal Revenue Code of 1954 to exempt disability annuities under title 11 of this act from Federal income tax. This is the same exemption already accorded similar annuities for participants under the Foreign Service disability and retirement system and for members of the uniformed services. (This section was favorably reviewed by the Department of Treasury in processing within the executive branch.)

Mr. WARNER. Page 1, line 5, this is a new title to the bill. I don't believe it needs any explanation. At line 10 we have the inclusion of the Deputy Director within the definition of director to permit General Carter to make the determinations required under the act.

Mr. HARDY. Is that the normal procedure to write that into the statute?

Isn't that normally accomplished by delegation?

Mr. WARNER. Well, we felt that these actions are of sufficient importance that it ought to be abundantly clear. It does vary—sometimes it is in statutes; sometimes not. We thought it would be better to make it clear that the Deputy Director is fully authorized to act for Director in these situations.

Mr. HARDY. I think that is probably all right, but every now and then when we get into situations where there are circumstances as important as these, it has generally been the thinking that the ultimate responsibility ought to be placed exclusively on the top administrative officer, which in this case would be the Director. I don't know whether—

Mr. BATES. And he delegates it if he wants to?

Mr. HARDY. Yes. Then in the event you have got a real come-back—

Mr. RIVERS. I can't conceive how there would be any difference of opinion between the two because the President would certainly remove him if there were any shenanigans between the two of them. I don't see how it can hurt.

Mr. BLANDFORD. Does the Foreign Service Act give this authority to the Secretary of State and does he delegate it or does it—

Mr. WOODYEAR. It is given to the Secretary of State and delegates to the personnel director.

Mr. BLANDFORD. You have never had any problem then, insofar as interpretations are concerned, that a delegated authority affecting retirement has been questioned, I mean to your knowledge?

Mr. WOODYEAR. To my knowledge we have never had any problem with it.

Mr. HARDY. I just have a doubt in my mind that we ought to have departure from what is normal practice in this. That is all.

Mr. BLANDFORD. Nothing actually is added or detracted from it. Mr. Hardy, if it were deleted.